



November 26, 2003

Summary

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Summary

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Prepared at the Federal Reserve Bank of Atlanta and based on information collected before November 17, 2003. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

Reports received from the District Banks suggest that the economy continued to expand in October and early November. Descriptions of the pace of growth varied somewhat. But improvements appeared to be reasonably broadly based, with most districts noting growth in a number of industries. Overall, wages and prices of finished goods and services remained fairly stable, although some increases in input prices were noted. Virtually all districts continued to report concerns about rising health care costs.

The majority of districts noted that retail spending was up on a year-over-year basis. Expectations for holiday retail sales were reported as generally positive. Reports on auto sales were mixed, with sales results closely linked to manufacturers' incentives. Travel and tourism activity improved overall, as did other service sector industries.

Manufacturing activity picked up in most districts, but few noted employment gains in the factory sector. Almost all districts characterized residential real estate activity as strong, but commercial real estate markets remained weak. Reports from the banking sector generally indicated subdued loan demand and some increase in investment banking activity. Agricultural conditions were good in most reports, while activity in energy-related industries was mixed. Labor markets conditions generally stabilized after an extended period of weakness. Several districts noted a slowing in layoffs and stronger demand for temporary workers.

Consumer Spending

Reports on retail spending were generally positive, although some weakness was attributed to unseasonably warm weather in several parts of the country. Boston, Atlanta, St. Louis, Minneapolis and Kansas City indicated that sales exceeded year-ago levels, while San Francisco described sales as "solid." Philadelphia said that sales were rising in early November after weak results in October, and Richmond noted recent improvements as well. Dallas and Cleveland indicated that sales growth remained uneven, while New York and Chicago described sales as soft. New York, Philadelphia, Atlanta and Chicago stated that warm weather put a damper on sales, particularly of apparel. Atlanta and San Francisco reported some discounting. Most districts said that inventories were well positioned, with many retailers keeping stocks lean.

Discussions of retailers' expectations for the holidays were generally positive. New York, Philadelphia, Richmond, Atlanta and Kansas City said that holiday sales are expected to

match or exceed last year's levels, while St. Louis and Minneapolis reported that retailers are optimistic. Kansas City said that retailers expect strong holiday sales while Boston, Cleveland and Chicago reported mixed expectations. New York and Minneapolis reported that retailers expect to hire similar numbers of seasonal workers as last year, whereas Kansas City indicated that many retailers plan to increase seasonal hiring.

Reports on auto sales were mixed across districts. Removal of generous factory incentives reportedly drove down sales in the Atlanta, Minneapolis and San Francisco districts; St. Louis noted that the incentives might have shifted sales into the summer from the fall. Chicago also indicated that sales weakened. Philadelphia, in contrast, reported a pickup in sales in early November because of new manufacturers' incentives after a "relatively sharp" drop in sales in October; Cleveland similarly noted that sales were tied to incentives. Kansas City reported that despite aggressive manufacturer incentives, sales improved more for used cars than for new cars. Boston reported strong sales of imported models but mixed results for domestic models. Several districts noted that manufacturers are expected to roll out new incentive programs to boost sales in the coming months.

Tourism and Services

Activity in the tourism and hospitality industry improved moderately overall, according to most reports, but business travel remained subdued and international tourism was still weak. Early snows and cold conditions in ski areas pushed up demand in the San Francisco district. New York reported that occupancy rates at Manhattan hotels were up noticeably from a year ago. Minneapolis reported "generally solid" tourism activity. According to Richmond, coastal areas were still recovering from damage caused by Hurricane Isabel, but mountain areas were booked almost to capacity for the Thanksgiving holiday. Atlanta reported increased traffic at amusement parks and tourist attractions in central Florida because of deals and discounts; south Florida's cruise industry continued to report strong numbers, and advance bookings at resorts and hotels are reportedly encouraging. San Francisco noted that the number of international visitors to Hawaii remained soft, but the weaker dollar is expected to boost traffic in coming months.

Business conditions also generally improved in other service industry sectors. Boston and San Francisco said that demand for software products improved; the outlook for software and IT services moved from cautious to optimistic, according to Boston. Richmond reported steady demand at professional, scientific, and technical service firms and higher demand at environmental services firms. In the San Francisco district, demand for professional services such as accounting, securities, and legal services stabilized after months of contraction. Richmond, St. Louis and San Francisco reported continued strong demand for healthcare services. Cleveland, Richmond, Atlanta and Dallas reported increases in transportation services. In general, increased seasonal freight was the main contributor to recent growth in land transportation.

Manufacturing

Manufacturing activity improved in most districts. Factory expansion was broad based in the Richmond district, with firms in almost all sectors reporting higher shipments, while Chicago said that new orders remained strong or were up for medium- and heavy-duty truck and construction equipment manufacturers. Dallas, Boston, San Francisco and Minneapolis noted positive reports among manufacturers of various high-tech products. Demand increased for building materials suppliers in the Atlanta and San Francisco districts. Cleveland reported that automakers and some steel producers increased activity and that most nondurable producers there indicated "little if any" spare capacity. Higher levels of capacity utilization were also noted in the Kansas City district. St. Louis reported that the

manufacturing sector showed signs of improvement despite some plant closings and layoffs. Less positively, Dallas reported continuing overcapacity in the petrochemical industry, and Atlanta and Richmond noted weakness in textile or apparel production. Weak demand for paper products adversely affected manufacturers in the Boston, Atlanta and Dallas districts.

Factory employment growth remained weak, according to a majority of districts. Boston reported that most manufacturers expect to hold domestic employment fairly flat in coming months. Cleveland, Richmond and Atlanta stated that permanent staffing levels were little changed. Dallas said that productivity growth and outsourcing continued to slow factory job growth. However, New York indicated modest increases in factory employment. Capital spending plans have changed little in recent months in many districts. Chicago noted that spending was mainly for repair and maintenance of existing equipment.

Real Estate and Construction

Residential real estate markets continued to show strength in virtually all districts. Home sales and construction maintained a brisk pace in most districts. However, Richmond and Atlanta noted some easing in recent weeks. Dallas relayed concerns about rising housing inventories in several areas, with homebuilders offering increased incentives. Chicago reported that the mid-priced housing market softened somewhat from earlier reports but that some areas experienced a small uptick in luxury housing markets; Kansas City noted mixed results for high-end construction. Residential activity is expected to remain robust overall into next year, by most accounts.

Most districts once again characterized commercial real estate markets as currently weak. However, the outlook was a bit more upbeat, with strengthening anticipated next year in many districts. Vacancy rates remained at high levels across most markets; however, there were scattered reports of small improvements in leasing or construction activity in the New York, Cleveland, Atlanta, Chicago, Minneapolis and San Francisco districts. St. Louis noted "booming" hospital construction. Richmond reported a "noticeable increase" in office and retail leasing but sluggish activity in industrial space. Philadelphia, Boston and Kansas City reported generally stable markets. Kansas City, St. Louis, Minneapolis and Dallas noted expectations of more favorable markets in some areas next year.

Banking and Finance

Loan activity was subdued in most districts. St. Louis and Chicago reported little change in overall lending activity. Loan demand was characterized as flat by Richmond, slowly increasing by Dallas and mixed by Cleveland. Outstanding loan volume moved up slowly in the Philadelphia district in November, and some banks there were limiting their residential real estate lending to prevent mortgages from becoming too large a portion of their loan portfolio. New mortgage originations were fairly strong in the Philadelphia, Chicago and San Francisco districts. Refinancing activity slowed in all districts that commented on mortgage lending. Commercial and industrial loan demand was said to have edged up in the Kansas City and Richmond districts, to be unchanged in Dallas and to have remained at low levels in Atlanta and San Francisco. Loan quality remained good in most districts, and New York said that delinquency rates declined across the board. Lending standards were generally unchanged, according to most reports.

Financial institutions reported mixed results in other activities. New York and Atlanta said that deposit growth held steady, while San Francisco reported a pickup. Kansas City reported that all types of deposit accounts rose except for large CDs, but Cleveland noted slower growth in core deposits. Merger and acquisition activity began to rise from low levels in the Chicago and Dallas districts. Philadelphia said that demand for business

financing prompted an increase in investment banking activity, while venture capital firms were beginning to evaluate start-up projects in the Atlanta district. However, Dallas reported that there was still "not a lot" of IPO activity.

Agriculture and Natural Resources

Favorable weather and improved market conditions continued to benefit farmers and ranchers in most districts reporting on agricultural activity. Mild, dry weather boosted farm production in Richmond, Atlanta, St. Louis and Kansas City districts. San Francisco also noted increased yields, while Chicago and Minneapolis reported improved conditions for most agricultural products. Kansas City and Dallas reported that market conditions were mostly good for cattle ranchers, but dry weather hurt cotton growers in the Dallas district.

Reports on energy-related industries indicated mixed conditions. Richmond noted that economic conditions in Central Appalachian coal fields were "favorable," with higher capital investment in new mining equipment expected. Minneapolis reported that activity in the energy and mining sectors was stable, and Kansas City reported that energy activity was strong. Dallas noted seasonal cutbacks in production by refineries and continued excess capacity in onshore rigs and a pickup in international drilling. Natural gas providers in the San Francisco district are reportedly fully stocked for the winter season.

Labor Markets, Wages and Prices

Labor markets across the nation generally improved or remained stable, with several districts noting a slowing in layoffs. Stronger demand for temporary workers was noted by Boston, Richmond and Minneapolis; Chicago added that the higher demand for temps was widespread. Several districts indicated that firms are waiting for sustained increases in orders before hiring permanent workers, although Boston reported some increases in permanent placements by temp agencies. Firms had difficulty finding some specialized workers in the Kansas City district, but labor markets remained slack there overall. Dallas and San Francisco also reported slack labor markets, although Dallas did note fewer layoffs. Minneapolis also reported increased hiring plans in some areas. Labor markets remained steady in the Cleveland and Atlanta districts as a whole, with few signs of impending increases in employment.

Wage pressures were mostly subdued, although almost all districts reported concerns about escalating health and other insurance costs. Several districts noted that employers were shifting more health insurance costs onto employees, with Kansas City adding that some small firms are eliminating health insurance entirely. Dallas cited rising health insurance costs as a factor, making firms reluctant to add new employees. New York reported that bonuses in the securities industry are expected to be 20 percent higher than last year.

Increases in some commodity prices were noted. Several districts noted higher prices for plywood and steel, and Kansas City also reported price increases for brick and cement. Dallas noted higher prices for primary metals, while Chicago reported a rise in prices for some heavy equipment and gypsum wallboard. Boston noted concern about upward price pressure due to higher transportation costs after new trucking regulations are implemented, while Dallas said that the regulations might also make it more difficult to hire drivers. San Francisco noted that residential rebuilding after the recent fires in Southern California is likely to boost prices of building materials and wages of construction workers.

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